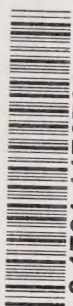


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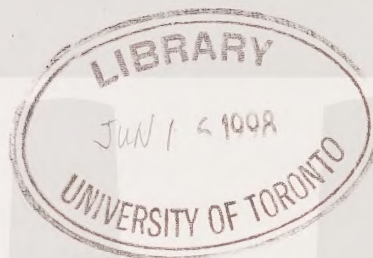
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Printed in Canada
Produced by CMHC

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GEOGRAPHY

Indonesia has a total country area of almost 2 million km² with 1.9 million km² of land. This archipelago of 13,500 islands, 6000 of which are inhabited, occupies a strategic location along major sea lanes from the Indian Ocean to the Pacific Ocean. The terrain is mostly coastal lowlands with a hot and humid climate. Larger islands have interior mountains with a more moderate climate. The total population of 195 million in 1994 is expected to grow at an

annual rate of 1.4 percent between 1993 and 2000 and is 45 percent Javanese, 14 percent Sundanese, 7.5 percent Madurese, 7.5 percent Coastal Malays, and 26 percent other groups. Many geographers divide the islands of Indonesia into 3 groups: the Greater Sunda Islands (Borneo, Sulawesi, Java and Sumatra), the Lesser Sunda Islands, and the Moluccas. Most of the Indonesian people live on the Greater Sunda Islands, and most of the nation's economic activity is centred there.



DEMOGRAPHY

Eighty-seven percent of the population is Muslim. The remainder are Protestant, Roman Catholic, Hindu, Buddhist or other. The literacy of the total population was estimated to be 77 percent in 1990.

Urban population represents 33 percent of the total population. Most Indonesians live in small farm villages and still follow many ancient ways of life.

ECONOMIC OVERVIEW

Indonesia is an economic success story. In 1967, when President Soeharto took power, it was one of the world's poorest countries, with per capita GDP of \$70 per person, half that of India and Bangladesh. In 1994, Indonesia's per capita GDP passed \$875, triple that of Bangladesh and more than double India's. Life expectancy has risen dramatically—from 41 in 1965 to 63 in 1994—while infant mortality and illiteracy rates have plummeted.

Real GDP growth has averaged 6.7 percent per year over the last 5 years. Through a restrictive monetary policy and a conservative fiscal stance, the government has confined inflation to the 5 to 10-percent range. With strong export performance and manageable import growth, the current account deficit dropped from \$4.4 billion in 1991 to \$3.2 billion in 1994.

Indonesia has made considerable progress in trade and investment deregulation. In mid-1994, Indonesia lowered investment barriers to among the lowest in the region. In May 1995, the government unveiled a comprehensive tariff reduction package which covered roughly two-thirds of all traded goods.

Further progress is needed, however, to eliminate remaining barriers to foreign and domestic trade, to replace the outdated commercial code, and to establish clear and transparent accounting and auditing standards. Indonesia has a free-market economy which is dominated by the private sector. The government does play a role in the economy, however, through state-owned firms and the imposition of price controls in selected industries.

The public enterprise sector in Indonesia represents an estimated 15 percent of GDP and employs about 1.2 million people (1.4 percent of the labour force). The share of the 181 state-owned firms in the economy has declined gradually as a result of strong private sector growth.

Most state enterprises are in industry (23 percent), followed by agriculture (19 percent), finance, public works and transportation. According to a World Bank study, the presence of state-owned firms tends to stifle competition. Industries with

higher public sector involvement have significantly higher concentration ratios, and many non-tariff barriers are found in industries where state-owned enterprises play an important role.

Indonesia has focused on a free market economy over the past few decades, with increased reliance on the private sector in recent years. The government participates in the economy through state-owned enterprises, particularly in the manufacturing sector. Foreign investment has boosted manufacturing output in recent years. Economic growth over the past several years has been in the 6 percent range, mainly from the manufacturing sector. Over the past few years, inflation has been held under control, and has averaged about 8 percent. The GNP per capita was estimated at US\$740 in 1993. Indonesia's world competitiveness rank was 33/48 in 1995, and its human development rank was 104/174, with 20 percent of the urban population and 16 percent of the rural population estimated to live in poverty in 1990. Fifty-five percent of the labour force of 67 million people works in agriculture, 10 percent in manufacturing, 4 percent in construction, and 3 percent in transport and communications. Seventy-five percent of the work force is estimated to be between the ages of 15 and 34. Unemployment is in the 3 percent range, but underemployment is estimated to be 45 percent.

Air and water transportation are important. Ports are crowded and shallow, and delays are frequent, but there is a concentrated effort to improve the situation. Road transportation, particularly in the vicinity of large cities, is difficult due to overcrowding. The train system is a single track system, and the trains operate at relatively slow speeds.

The economic development of Indonesia in the last 50 years since its independence has been recognized as one of the fastest within the region of neighbouring developing nations. The urban sector has only relatively recently received attention in the last 30 years of the first national development period and the provision of housing and human settlements remain a crucial and central issue to be addressed for the effective development of the nation as a whole.

The Indonesian economy operates on a 30-year program in accordance with the Broad Outlines of State Policy (Garis Besar Haluan Negara, GBHN) proposed by the present government in 1966. This program is divided into six 5-year plans or *repelitas*. The government adopts a “balanced budgetary system” and expects an annual growth rate of 5 percent a year during this 30-year period.

During the last 25 years of the first development period, the economic growth of Indonesia measured in terms of GDP has increased at an average of 6 percent per annum. The growth of the economy has been paralleled by a shift in emphasis from the oil sector to the non-oil sector, and the relative increase of industrial and secondary production compared to the production

from primary products. Between 1989 and 1994, the manufacturing sector accounted for 22.3 percent of GDP on average.

Contribution of housing to GDP has averaged 6.38 percent between 1991 and 1994. Indonesia’s construction industry has been centred on Java, with most of it located in the Greater Jakarta area (the Jabotabek area includes Jakarta, Bogor, Tangerang and Bekasi). The projected growth in the construction sector for Pelita VI (1994-99) is 8.1 percent in the Jakarta area according to the National Planning Bureau for Development Planning and Implementation (Bappenas), which is higher than the average GDP growth over the past few years.

POLITICAL OVERVIEW

Indonesia obtained its independence from the Netherlands in 1945. The Indonesian political system is a parliamentary system under which all authority is vested in the People's Consultative Assembly, which meets every 5 years to elect a President and a Vice-President and to provide broad policy directions for the next 5 years. Half of the MPR's members come from the partially elected Parliament (DPR), and the other half are appointed by the government. The military has a role not only in the government, but also in the administration. The political situation is currently characterized by stability. However, upcoming elections and uncertainties associated with the selection and establishment of a new President may reduce the stability. The present government maintains the social order with a firm hand. This is leading to some dissatisfaction among the population.

Of the 500 members of the DPR, 400 are selected through nationwide elections held every five years, and 100 are active duty members of the armed forces (ABRI) appointed by the military. The number of appointed members in both the DPR and the MPR will drop by 25 in the 1997 election cycle. Parliaments also exist at the provincial and district level. The last national and local parliamentary elections were held in 1992; the next will be held in 1997.

Only 3 political groupings are permitted by law. The largest party is Golkar, a government-sponsored organization of diverse functional groups that won 68 percent of the vote nationwide in the 1992 polling. Virtually all civilian government employees belong to Golkar, which holds an absolute majority in the DPR and all provincial and district parliaments.

The United Development Party (UDP), a Muslim-oriented grouping, and the Indonesian Democratic Party (PDI), a collection of former nationalists and Christians, split the remaining

1992 vote. The activities of all 3 parties are tightly controlled. Under current government doctrine, no opposition parties are allowed.

All 3 parties, as with all registered social groupings in Indonesia, must embrace the state ideology called Pancasila, which includes belief in a supreme God, a just and civilized humanity, national unity, democracy and social justice. All 3 parties also promote policies which favour national economic development.

For the past 3 decades, President Suharto, whose current term ends in 1998, has ruled unchallenged with the support of the military. Under a dual function concept that justifies military involvement in the social and political life of the nation, the military holds many key civilian government positions and parliamentary posts. However, the number of military in such posts has been on the decline during the last decade.

Suharto is only the second president of Indonesia in nearly 5 decades, and the mechanisms that are supposed to guide the presidential succession process are essentially untested. No obvious replacement to Suharto, who is 74, is currently visible.

These factors make the succession issue a key one in assessing the future stability for business ventures, both because of Suharto's relatively pro-business policies and because of the political uncertainties involved.

Other stability factors with business implications are ones that are related to perceived inequalities in income and rising complaints over labour issues, especially the continued failure of a number of employers to pay the legally mandated minimum wage, despite stepped-up government enforcement efforts. These issues could lead to localized problems; more widespread upheavals appear unlikely, however, for the foreseeable future.

TRADE POLICY

Canada has a long tradition of direct foreign investment in Indonesia, dating from the 1960s. Net direct investment in the decade that ended in 1994 ranged between \$1.1 billion in 1986 and \$739 million in 1994.

Canadian exports to the Indonesian market totalled \$449.7 million in 1994. Bilateral trade reached over \$997 million.

However, Canadian experience in the Indonesian construction sector is limited, with little identification by local architects and developers of an applicable expertise in the sector. Tropical conditions, in particular high humidity and pests, make wood-based construction a low priority amongst Indonesian builders. Canadian exports of wood pulp products in 1994 amounted to \$87 million.

Canada has traditionally enjoyed a large trade surplus with Indonesia, although the margin has narrowed in recent years. Canada traditionally supplies approximately 2 percent of Indonesia's annual import requirements.

Top Canadian exports to Indonesia are commodities and resource-based products, such as plastics, cereals, fertilizers, pulp and sulphur. Leading exports of manufactured products include power plant boilers, locomotives and communications equipment. Canadian sales of services, particularly engineering services, comprise a further sizeable component of Canadian trade. During the last 2 to 3 years,

Canadian government-funded trade missions to Indonesia have targeted the promotion of Canadian manufactured equipment in the telecommunications, aerospace, remote sensing, mining and pulp and paper sectors.

Indonesia is a major supplier of clothing and textiles to Canada. In 1986 a bilateral textile restraint arrangement was signed with Canada. The current arrangement has been extended to December 31, 1994. Other significant Indonesian exports to Canada include plywood, tropical hardwood lumber, natural rubber, copper, seafood and other food stuffs and footwear. Approximately half of Indonesia's exports to Canada enter duty free. Indonesia is a member of GATT and a beneficiary of Canada's General Preferential Tariff.

The Indonesian manufacturing sector is rapidly growing and diversifying in response to ongoing deregulatory measures first introduced by the Indonesian Government several years ago. Canada is focusing its marketing initiatives on capital and semi-finished goods and services for the emerging manufacturing sector.

Canadian investments in Indonesia are estimated at \$3.0 billion—the mining and smelting complex of INCO in Sulawesi being the major component. Others include Bata Shoes and Gulf Canada Resources (Asamera). Canada is active in Indonesia's oil and gas sector. Oil exploration and production activity by companies such as Husky Oil is supplemented by the involvement of a variety of Canadian oil service companies.

HOUSING CONDITIONS

About three-fifths of all the Indonesian people live on Java, which covers about 7 percent of Indonesia's total area. Most of Indonesia's large cities are also on Java. They include Jakarta, the capital and largest city. Thirty-three percent of the Indonesian population is urban.

Most Indonesian farm families live in houses that consist of a sleeping room and a large living room. The living room may also serve as the kitchen and have a rectangular hearth. Rural lifestyles are traditional. Stones are arranged to hold the cooking pans over the fire. The people often dry and smoke fish or meat on bamboo poles that hang above the hearth. Indonesians also use kerosene or oil stoves for cooking.

Except in Java, where houses are built on the ground, most traditional Indonesian houses stand on stilts about 6 feet high. Families use the space underneath for cattle stalls or chicken coops, or to store tools and firewood. The floors and walls are made of timber or flattened bamboo. The roofs are covered by clay tiles or thatch made of palm leaves.

Some Indonesian groups build long houses, in which 100 people may live. These groups include the Dayak peoples in Borneo, the Toraja in Sulawesi, the Batak in Sumatra, and some Papuan groups in Irian Jaya. In Sumatra, the Minangkabau people build houses with steeply sloping roofs that curve up at both ends. Many Indonesians decorate their walls with beautifully carved wood panels. In the cities, people live in Western-style homes as well as traditional houses.

The World Bank housing indicators for Jakarta in 1990 indicated that the average floor area per person was 10.17 m², with 1.28 persons per room and 1.14 households per dwelling unit. Sixty-seven percent of the structures were considered to be permanent, and 66 percent of the structures had water connection. The percentage of owner-occupancy was 56 percent.

The Ministry of Public Works is responsible for housing through the Directorate General of

Human Settlements (the current programs include the following: Building Codes and Regulation, Housing Provision, Housing Improvement). Strategies are adopted to provide low-cost affordable housing for the majority of the people, particularly low-income groups. Housing and dwelling for lower- and middle-income brackets is provided by government enterprise. In addition, some employers provide housing for their workers.

It is recognized that the private sector has a vital role to play in the delivery of housing, generally providing housing for upper- and middle-income brackets. Private contractors and developers are represented by the Association of Indonesian Real Estate Developers. For middle-income people in Indonesia, private-sector-supplied housing can be financed through the State Savings Bank.

In 1992, the total housing stock in Indonesia was 44.9 million units. In 1990, the private sector completed 210,000 new dwellings. In 1992, 0.7 percent of the GDP was invested in residential construction. Total expenditure on housing represented US\$8.4 billion in 1993, including household fuels, or US\$45 per capita (6 percent of GNP per capita).

Large-scale improvements to housing conditions and services are required in Indonesia. Opportunities exist in the land development sector. Domestic firms predominate in all sectors of the construction industry, and there is extensive integration between site builders, renovators and land developers. The provision of housing in general will be implemented based on sustainable development concepts through efficient land use, environmental consideration, improved services delivery and the application of appropriate technologies. Controls on production plants and on residential projects can be complex and time-consuming, involving both provincial and local authorities.

HOUSING SECTOR

Overview

Indonesia is characterized by a great disparity of classes and income levels, which are reflected in the housing sector. Pricing for houses vary between Rp 10 million (\$5,848) for modest housing to over Rp 500 million (\$292,400) for luxurious apartments. Low- to medium-housing prices vary between Rp 40 million (\$23,392) and Rp 150 million (\$87,720). There is a large gap between the housing prices and the purchasing power of the average people living in the Jabotabek area. As a consequence, housing targeted for the low and very low classes cannot be afforded by them, but are bought by the middle classes. Middle class income levels vary between Rp 10 million (\$5,848) and Rp 24 million (\$14,035), while low income levels average around Rp 2 million (\$1,170) per year. A low-class house costing Rp 40 million (\$23,392) represents 20 times the average low income, whereas it represents only between 1.7 and 4 times a middle-income level.

The problem is exacerbated by the presence of speculators controlling the upper-class real estate business, which is considered as a safe and profitable investment.

Major Participants in the Local Housing Industry

Government Players

The Provision of Public Housing is the responsibility of a number of Institutions (discussed below in the Key Housing Market Institutions section). Up to now about 15 percent of all housing has been provided through the formal sector which involves these institutions. The trend has shown a consistent increase in the use of the formal sector for the provision of housing.

Perum Perumnas is a government-owned company that is mainly responsible for providing very low- to middle-class housing. Perumnas had build 68,000 units of low-income housing or 20 percent of the total low-income housing developments up until the end of the fifth phase of the Five Years

Development Plans, while the rest were done by private companies.

Private Sector

Private sector participation in Indonesia has been focused on housing projects targeted towards the higher income groups. Despite the 1/3/6 rule for private developers to build high-class, middle-class, and low-class housing projects, 90 percent of developers have not started low-class housing projects for economic considerations.

The main contributions of private associations to the market are the establishment of codes of conduct for their members as well as standards to ensure somewhat regulated market conditions for their members. These standards include fee standardization, and the definition of acceptable quality levels. For instance, in the area of building licensing, the blueprint of the plan has to be approved by the Association of Indonesian Architects (IAI).

The main associations are:

- PMPP REI: Dewan Pengkajian Masalah Perumahan + Pemukiman Real Estate Indonesia—Council analyzing issues of housing and habitat for Indonesian Real Estate. Most of the private developers are members of this organization;
- AKI: Asosiasi Kontraktor Indonesia (Association of Indonesian Contractors);
- Inkindo: Ikatan Nasional Konsultan Indonesia (Association of Indonesian Consultants);
- IAI: Ikatan Arsitek Indonesia (Association of Indonesian Architects); and
- AREBI: Asosiasi Real Estat Broker Indonesia (Association of Indonesian Real Estate Brokers).

Key Housing Market Institutions

The Office of the State Minister for Public Housing is tasked with the function of preparing national policies in the housing and settlement development sector.

The National Housing Policy Agency (BKPN) is tasked with finding solutions to arising issues and assisting in the formulation of general policies by the Government.

The Ministry of Public Works is responsible for preparing technical guidelines and standards to ensure that the programs and activities in housing and settlement development may be planned and implemented in an orderly and safe way; for initiating the construction of infrastructures in an integrated manner in both the urban and rural growth centres; and for undertaking development and improvement as well as research of technologies of building materials, components and construction services.

The Ministry of Environment is responsible for environmental regulation.

The Ministry of Finance is responsible for allocating development funds; for establishing financing systems; and for determining the interest rates in housing finance.

Bank Indonesia is responsible for guiding and developing banks and non-bank financial institutions in the housing loan sector.

Two government banks that specialize in real estate are PT Bank Tabungan Negara (granting credits for modest and very modest housing), and PT Bank Papan Sejahtera (granting credits for medium and luxury houses). They increased their credit to the real estate sector by around 35 percent to 40 percent from Rp 1.6 trillion in 1994 to Rp 2.1 trillion in 1995, of which 60 percent was used for housing credits while the rest was used for construction.

Relevant Regulatory Systems

Legal

The question of land acquisition and titling is perhaps one of the most difficult issues to be overcome. First there is a lack of transparency and consistency in the district government's master plan about which areas are eligible to be used as real estates. Second, there is a web of bureaucracy in the government side regarding land ownership and building permits, coupled with the fact that there are not enough facilities and human resources within the government to handle this

issue. Third, there is no clear direction or involvement from the government regarding land price control.

There are recorded cases of ghost real estates where the customers paid large deposits and the developers ran away with their money. The problem behind most of these cases is the complicated and long process of land transfers. The developers had started marketing the houses before construction and then were not granted permission to build.

Approvals

In Jakarta, buying a piece of land does not give ownership but only the right to build for 20 years. This right has to be extended before the expiration date. In the case of real estate complexes, the developers are responsible for extending the rights.

For projects under 5000 m², the first phase for obtaining approval is to get the permit to build (Ijin Mendirikan Bangunan) from the district government—mayor's office. Basic requirements are the complete land documents and the blueprint of the building produced by a certified architect/planner/consultant. The Building Plan has to be confirmed by the City Planning Office. The second phase involves the obtention of the "Ijin AMDAL"—Environmental viability permit from the representative ministry of environment in the district government office, and the approvals for well drilling, sewage, and so on, from the mayor's office.

For projects over 5000 m², all of the above steps are required plus a permit from the governor's office to execute a project in that specific area.

Utilities

There are no privately owned utility companies in Indonesia. However, the government is now encouraging private sector participation in this sector. The telecommunication company, PT. Telkom has just finished its initial public offering this year.

Housing as a National/Sub-Regional Priority

The objectives of housing and settlement development in the Sixth Five-Year Development Plan (Pelita VI) is to have a more focused and

even fulfilment of the needs for housing and settlement infrastructures and facilities, especially for the low-income groups. During Pelita VI, 500,000 units of modest and very modest housing are planned to be built nationally. This is an increase of 47 percent over the 340,000 units built so far during the first five stages of the

development plans. Approximately 300,000 of these units (80,000 units of modest houses and 220,000 units of very modest houses) will be developed by the private sector. West Java will have 54,000 units (18 percent) followed by 49,000 units (16 percent) in the Jabotabek (Greater Jakarta) area.

MATERIALS, LABOUR AND FINANCING

Materials

Availability of local materials is high, especially for structural materials. Their quality is good. However, big conglomerates sometimes control their supply. In the case of cement, one private company holds almost a monopoly for cement production and distribution and controls its supply, causing prices to fluctuate. The Government is now having difficulty trying to regulate the cement price by imposing a standard price for each region. Finishing products (ceramics, sanitary products, etc.) are available at a fair/good quality and at a reasonable price.

There are two identified trade channels for housing supplies. The first one is from the manufacturer or the trade representative to a mid agent (supplier) to materials stores. For large projects, large materials stores buy directly from the manufacturers.

Materials stores usually sell all the structural materials (wood, bricks, cement, calcium carbonate, steel, natural stones, PVC pipes, etc.), plus other accessories such as nails and paints. They are sometimes also specialized in finishing products such as ceramics, sanitary products, and door handles. Materials stores, even the bigger ones, are family-owned.

There are some exclusive retail centres for finishing building materials such as ceramics, sanitary equipment, fancy door handles, and so on. Most of these products are imported with the exception of a few high-end local products.

There are different ways for imported products to reach the market:

- Ordered directly by contractors from abroad. This happens often in projects where foreign consultants or architectural firms are involved; or
- Through trade representatives such as direct agents (for example Armstrong Platform), or appointed local suppliers (such as Dandjaya, a big ceramic supplier, who carries some imported products).

Labour

Availability of local labour is large. Local labour is cheap, although sometimes it is not specialized.

Financing

Most real estate companies in Indonesia still rely heavily on financing through banks. This is the main reason why the housing sector has been very dependent on the fluctuation of borrowing interest rates. In times of down turns, a lot of banks reduce or even stop their property credits. To overcome this problem, the finance department is working on the possibility of introducing a secondary mortgage, but has not come up with anything concrete yet. Speculative actions often cause cases of bad debt.

Besides the fluctuating interest rates, housing credit in Indonesia is not extensive enough in variety. The DPMPP REI proposed to introduce a progressive payment credit as a solution to this problem, which would be suited for the growing segment of young professionals facing a prospective income growth.

HOUSING MARKET ACTIVITY, NEED AND DEMAND

Local Technology

Structural products which are mostly natural resources such as bricks, cement, calcium carbonate, natural stones, wood, and so on are indigenous. Finishing products such as glass, ceramics, sanitary products, roofs, and platforms can be indigenous and/or imported. For some of the interior products like air conditioning units/systems, most of the parts are imported and assembled locally. Table 1 shows the type of project and requirements.

Typical materials and components also depend on the type of housing, as shown in Table 2.

Plumbing pipes are either galvanic or PVC pipes. Sewer pipes are either concrete or steel pipes.

Organization of the Local Housing Industry and its Capabilities

Ten conglomerate groups control 70 percent of the real estate land permits in the greater Jakarta area (Jabotabek), and 60 percent of apartments. Table 3 illustrates these companies, the names of housing projects, and the planned housing units. In total, the main players consist of about 25 companies. Besides those large groups, there are about 104 medium-scale developers in the greater

Table 1:
Types of Projects and Requirements

Type of Project	Developers	Contractors and Consultants	Construction Techniques and Technologies	Finishing Products
General real estate projects and medium rise buildings	Local	Local	Traditional/labour intensive	Local
Luxury real estate	Can be local or a consortium between local and foreign	Can be local or a consortium between local and foreign	Traditional/labour intensive	Can be local or imported; usually imported
High-class apartments in highrise building projects	Can be local or a consortium between local and foreign	Foreign with local partners	Imported, advanced methods	Can be a combination of local and imported; usually imported

Table 2:
Typical Materials and Components Used, by Type of Housing

	House/Low/Medium Rise Buildings	Highrise Buildings
Frame	Wood Bricks	Aluminum Knock down panel
Cooling	Poor—fair natural ventilation system or by Air Conditioning units or small central air conditioning system (usually locally assembled)	Central air conditioning, usually imported products
Water	Through the city water company (PDAM), deep well, electric pumps	Deep well
Windows	Wood + local glass	Aluminum + imported glass
Doors	Wood	Aluminum, wood composite
Foundation	Natural stones + cement based	Mini pile, Frankie pile, Stauzz, Well
Interior Finishing	Refer to previous table	Refer to previous table

Jakarta area. There are also small players that market small estates. Cases of ghost real estates are often caused by these small players.

There are about 40 property marketing agents in Indonesia (including the foreign investment ones).

One large conglomerate can be at the top of 6 to 10 companies. Therefore even large projects can be handled by contractors and sub-contractors from the same group or from a consortium of several groups.

For smaller projects, people are brought into the project either because:

- they have already worked with the contractor (the business culture puts a strong emphasis on relationships);
- they have heard about the project from the grapevine;
- they have approached the contractor to get hired; or
- they have bid for the project.

The designing process is normally executed by an architectural firm that is referred to as a "consultant". Legally, a consultant cannot resume the contractor's job. However, a consultant usually will act on the owner/developer's behalf to control the project implementation. Sometimes, developers take over the consultant's role as:

- trades people are abundant and cheap; and
- the quality of construction varies from fair to good.

In most cases of developments of highrise buildings, the involvement of foreign consultants and contractors contributed to enhance the skills of local contractors appointed to work with them.

However, for mass housing projects, especially for low- to medium-class real estates, the quality of the construction is fair. There has not been any standard of quality applied to the market and builders are driven by cost in their choice of materials.

There are a lot of opportunities for improving construction and manufacturing techniques capabilities. However, the cost and benefit consideration between using more efficient technology and using manual labour is the main obstacle in implementing those techniques.

For instance, even though knock-down partition panels are available in the Indonesian market, bricks are still used extensively by contractors because of their cheaper overall cost including manual labour.

The quality of equipment is high for equipment involved in the construction of luxurious residences.

Table 3:
Ten Conglomerate Groups who Control 70 Percent of the Real Estate Land Permits in the Greater Joharta Area

Name of Company	Areal (ha)	Name of Project	Location	Planned Housing (units)
PT. Bumi Serpong Damai (Consortium)	6000	Bumi Serpong Damai	Tangerang	139,000
PT. Grahabuana Cikarang	5400	Kota Baru Cikarang	Cikarang	100,000
PT. Panca Wiratama Sakti	3000	Kota Baru Tigaraksa	Tangerang	11,000
PT. Putra Alvita Paratama (Consortium)	2000	The Legend City	Bekasi	45,000
PT. Java Real Property	1700	Bintaro Jaya	Jakarta	25,000
PT. Lippo City Development	1300	Lippo City	Cikarang	16,000
PT. Ciputra Development	1000	Citra Grand City	Tangerang	8,500
PT. Modernland Realty	770	Moderland	Tangerang	20,000
PT. Lippo Village	700	Lippo Village	Tangerang	50,000
PT. Alfa Goldland Realty	700	Alam Sutera	Tangerang	13,800

Many major projects are underway locally. The significant ones are the development of what are called "New cities", where estates act like independent cities with their own schools, malls, and other facilities. The rapid development of the Jabotabek area is the main reason for the establishments of these "independent cities". The government of Indonesia is also actively promoting the concept of the Integrated Area Development where housing is one component of the development of one area including industrial complexes, commerce, retail complexes and institutional facilities, as well as infrastructure support.

Table 4 describes some of the projects for new city complexes in the Jabotabek area.

Housing Need

The areas of greatest need in the housing sector are legal and political reforms, as well as the ability of financing.

A thriving economy, extensive government infrastructure projects, and rising capita income, will lead to further expansion in the construction industry.

The current over-supply of high-class housing and under-supply of low-class housing may lead to several changes in the market place as well as in housing policies in order to close the gap. The main challenge facing the housing and human settlement sector is the need to meet the ever-increasing demand for housing of all types, and to mobilize the housing industry to support the economic development of the nation as a whole.

The natural growth of the Indonesian population is reducing each year. It is now 2.3 percent per year.

With almost a third of its population living in the cities, Indonesia is fast becoming an urban society. The Jabotabek area experiences the fastest growth as its population is servicing the dynamic economic growth in Indonesia. In 1993, the total population in the Jabotabek area was 23.2 million people and is expected to grow by 16.6 percent by 1998. In 1998, Jakarta's population is expected to reach 9.7 million people.

Pressures from society for eligible single people to be legally married is very high. Also, there has been a decrease in the average family size. As a consequence, the family formation rate remains high, which keeps the demand for housing high.

Apartments are not the preferred choice of housing among the Indonesian population. People who live in low-class apartment buildings do so because they do not have a better choice, and the higher-class segment of the population often own luxury apartments as an investment or as temporary town houses only. In the Indonesian culture, one of the ultimate goals in life is to own a piece of land that can be passed on to future generations. Therefore, people hesitate to live in apartments and prefer to spend several hours in traffic for the sake of owning a piece of land.

The booming of the economy has resulted in a middle-high-class segment of society with new money. This class likes to renovate their house or even build one with luxurious finishing materials.

Table 4:
New City Complexes in the Jabotabek Area, 1994-2000

	1994	1995	1996	1997	1998	1999	2000
Jakarta	6,728	7,400	7,992	8,552	9,065	9,518	9,994
Tangerang	7,850	9,499	11,684	14,254	17,390	21,042	25,461
Bekasi	10,426	12,719	15,645	19,086	23,286	28,175	34,092
Bogor	6,006	6,967	8,082	9,375	10,782	12,399	14,259
Karawang	675	911	1,230	1,661	2,242	3,049	4,086
Serang	2,270	2,860	3,632	4,650	5,951	7,499	9,298
Total	33,955	40,358	48,266	57,578	68,716	81,683	97,190
Growth (%)		18.9	19.6	19.3	19.3	18.9	19

The National Housing Board estimates that the annual demand for new housing (including private homes and residential complexes) is 500,000 to 600,000 units per annum, with Jakarta absorbing about one quarter of the total supply. Despite the surplus of upper-class housing and the shortage of modest housing in Indonesia, more high-class residential projects are started than housing projects for the poorest segment of the population. Moreover, despite its needs, the lower-income segment of the population cannot afford even the cheapest housing. Therefore in 1995, despite the demand for low-cost housing, sales have significantly dropped in all housing categories.

With the complicated issues surrounding land ownership, high land price, traffic congestion, and unmet demand of housing for the low-class segment, apartments are one solution to the problem of meeting demand. Strata title apartments (ownership of single apartments within an apartment complex) have become the newest growth area in the residential sector. The greatest demand for apartment buildings lies in the modest apartments, which the government has started to build in Jakarta.

Housing development for the next five years in Jakarta is expected to grow between 6 percent to 10 percent per year. In Tangerang and Bekasi the expected growth is 20 to 23 percent. Bogor is expected to grow at an annual rate of 15 percent to 16 percent whereas Serang is expected to grow between 24 percent to 28 percent per year. Karawang is expected to grow at an annual rate of 35 percent.

Table 5 is the breakdown for very modest to modest housing developments in the Jabotabek area during Repelita VI. Very modest housing (RSS) corresponds to less than 36 m² of building area. Modest housing (RS) corresponds to areas between 36 and 60 m². Middle- to high-class housing corresponds to an area greater than 60 and 120 m² respectively.

In the Jabotabek area, 109,477 housing developments will be intended for the medium- to high-classes during the same time period.

**Table 5:
Breakdown for Modest and Very Modest
Housing in the Jabotabek Area**

	RS (Modest Housing)	RSS (Very Modest Housing)
Public Housing, PERUMNAS	15,000	75,000
Private developers, REI Memberships	28,320	21,076
Total Jabotabek	43,320	96,076

The supply of apartments in the Jabotabek area between 1995 and 1998 is projected to be as illustrated in Table 6.

**Table 6:
Supply of Apartments in the Jabotabek Area
between 1995-98**

Year	Number of Projects	Unit	(%)
1995	18	3,901	-
1996	36	8,514	118.3
1997	22	14,243	67.3
1998	4	3,185	-77.6

The supply of apartments targeted to the higher income groups nationally is projected in Table 7.

**Table 7:
Supply of Apartments Targeted to the Higher-
Income Groups (National Figures)**

Year	Supply (units)	Demand (units)	Occupancy Rate (%)
1995	9,137	6,944	76
1996	17,651	13,238	75
1997	31,894	23,062	74
1998	35,079	25,257	72

Renovation activity is relatively high for the following reasons:

- Although it is very hard to obtain a building permit, there is a total lack of control when it comes to altering a house that is already built. This stimulates a lot of renovation activities.

- Real estate developers often offer a simple standard of houses with locally-acceptable materials in order to save costs. A lot of people then decide to renovate or expand their houses according to their taste and needs.

State of Local Transportation Networks

There are about 5 percent to 10 percent new roads being built every year in Jakarta. Despite this expansion, the current road network of 5,500 kms only meets 60 percent of the needs. The number of vehicles on the road grows by 14 percent every year. This leads to traffic jams, particularly in Jakarta. The government is trying to deal with road congestion problems by building and planning fly overs, tunnels and bridges.

The rail system is one of the oldest means of transportation on the Java Island. Jakarta itself has three main rail networks, including both electrical and traditional ones. However, the rail network is not as extensively developed on some of the other islands.

Because Indonesia is an archipelago, there is a great emphasis on sea transportation. In Jakarta, two ports handle both freight and passengers and function efficiently enough as international ports.

The government of Indonesia is making a lot of efforts in improving the transportation infrastructure, especially by encouraging the private sector participation in the infrastructure development.

EXPORT OPPORTUNITIES AND STRATEGIES

The Indonesian economy is open and the country was rated by MSU as the 19th most promising emerging market in the world in 1995. Indonesia currently imports over \$US500 million in building materials annually, and this figure has been increasing at an annual rate of 15 percent. Indonesia's population of close to 200 million is growing at an annual rate of 1.7 percent. This population growth, combined with economic growth, will strengthen the middle class and demand for housing. The U.S. Department of Commerce has identified building materials as one of the more promising sectors for trade.

Principal Foreign Competitors, their Major Activities and Market Penetration

Japan has been the largest foreign investor in the construction sector. Japan's penetration covers construction technologies such as scaffolding and fabricated panels, and electrical equipment such as cabling systems, lamps, air conditioning units and systems, elevators, and electricity generators. The ability and the capacity to manufacture these products has not been reached locally yet. However, some of these products are locally assembled. Therefore, a large number of joint venture companies were formed between Japan and Indonesia to manufacture some of the parts, assemble the units, and market the products. Japanese firms have also been investing in paint manufacturing and marketing.

Korea has started to widen its penetration in the same areas as Japan.

The Netherlands is active in manufacturing and marketing the Phillips brand for electrical accessories (as a joint venture).

The new deregulation now attracts more foreign investors from various countries. General Electric from the U.S. just opened a large operation for electrical equipment and air conditioning units. Armstrong from the U.S. also markets its platform products.

For high-quality ceramic products and sanitary products, European countries, especially Italy,

Germany and Spain, are the major players. However, high-quality local products have started penetrating the upper segment. Some American and Australian companies have also started to introduce their products recently.

American firms are the leaders in foreign consulting services (architectural services). Hong Kong and Australian firms are also strong in this area, followed by Japanese and Singaporean companies. One Canadian company listed in this area is Zeidler Roberts Partnership.

Potential Housing Import Demand

In addition to exterior building technologies and systems, there is a substantial market locally for high-end finishings for application in new housing and apartment complexes. These include innovative products for wall and room construction, kitchen and bath design, granite and marble flooring, specialized interior wood products, waterproofing materials, specialized designs for doors and windows (in particular energy efficient products), as well as interior trim and facade techniques. The boom in construction has also created increased demand for heavy equipment and related services needed to support the growing building activity. Scaffolding systems, multi-purpose cranes and heavy lift units, earth moving equipment, specialized steel and rod for reinforcing, are among the myriad of products experiencing growing demand from the local building industry.

There is little local tradition for prefabricated housing systems. An extensive education effort to convince local building trades and developers of the cost advantages of modular, prefabricated housing technology, is a first step in demonstrating such an approach in local conditions. Potential savings in labour associated with construction is difficult to demonstrate, given an over-abundant and low-cost work force available for specific building products.

Price competitiveness is an issue in order to gain market share.

BUSINESS ENVIRONMENT

Overview

The best time for a business trip is September through June. July and August are popular vacation months. Business visitors should check the local holidays schedule before travelling to Indonesia. Business cards are commonly used.

Business Customs

The normal business attire is a business suit or white shirt, tie and pants for men, and a business suit or dress for women. The traditional batik shirt is also commonly worn in the office.

Indonesians like to avoid confrontation and disharmony. Exchanging small gifts is common practice. Do not use the left hand in receiving or eating. Although hand shaking is a common practice, physical contact is usually avoided. Smiling, bowing, or nodding is considered more gracious. Tea or coffee is almost always offered during business or social calls and should be accepted.

Indonesians do not conduct business transactions or make decisions in the same direct fashion North Americans do, so Canadian business people should be prepared to spend a good deal of time with clients before getting down to the business transaction. Patience is the key. One should not lose one's temper or show emotion. The word "no" is rarely used.

In Indonesia, relationships and references, especially with the authorities, are sometimes more important than track records or written agreements. Indonesians can easily change their mind or add new agenda items at the very last stage of business negotiations, which can be very frustrating for foreign firms trying to do business there. However, with the improvement in the education sector and the growing exposure to foreign practices, there is improvement in the business practices observed.

Most importantly, Indonesians do business with "friends," people that they know, so developing a rapport is crucial. While quality and price are

important, they are secondary to the personal interaction of the business partners.

Tourists and business visitors from Canada may obtain free visas upon arrival if they have a return ticket, and the period of stay does not exceed 2 months.

Business Hours: Business hours start early in Indonesia and are shown in Table 8.

Holidays: National holidays are illustrated in Table 9.

**Table 8:
Indonesia: Business Hours**

Commerce	Government
8 a.m. to 4 p.m. Monday to Friday*	8 a.m. to 3 p.m. Monday to Friday*
8 a.m. to 1 p.m. Saturday	
Banks	Shops
8 a.m. to 4 p.m. Monday to Friday*	9 a.m. to 6 p.m. Monday to Saturday
8 a.m. to 1 p.m. Saturday	
*Muslims are released to prayers every Friday from 11 a.m. to 12 p.m.	

Business travellers interested in engaging in such activities as concluding commercial transactions or performing professional or technical services should obtain a regular business visa from an Indonesian embassy or consulate. Temporary resident visas are valid for 6 months to 1 year and are issued exclusively to experts required for national development. Non-citizens are not allowed to work in Indonesia unless they have a work permit issued by the Ministry of Manpower.

In addition, foreign and domestic investors must submit a manpower employment plan to BKPM to obtain approval for expatriate employee work permits. Work permits are issued only for positions that cannot be filled by Indonesian nationals. The government issues a list of professions by sectors that are open to expatriate personnel.

Foreigners who have lived in Indonesia 6 months or more will need an exit or exit/re-entry permit. A fee, currently Rp 250,000 or approximately \$125, must be paid by permanent residents of Indonesia, both citizens and foreigners, upon departure at the

point of embarkation. This fee can be credited against payment of personal or corporate taxes due to the government.

Business Infrastructure

Transportation: In Jakarta and other major cities, public transportation is not considered reliable or particularly safe.

**Table 9:
Holidays**

February 20-21	Idul Fitri
March 21	Hari Raya Nyepi
April 28	Idul Adha
May 19	Muslim New Year
June 2	Waisak
July/August	Mohammad's Birthday
August 17	Independence Day
December 20	Ascension of Mohammad

Taxis are available, but the condition of the vehicles and the knowledge of the drivers varies widely. Although a luxury taxi service provides good service, there are only a few such taxis on the street. Thus, the preferred method of transport is by private car. The majority of foreigners resident in Indonesia use the services of hired drivers. Wages plus benefits range from \$150-\$500 month for an experienced driver who speaks English.

There is air service between major cities and islands but expect to experience delays routinely. Train service links cities; however, scheduled runs do not always have a first-class car. There is ferry service for people and vehicles linking the major islands and many of the smaller islands.

Language: The national language of Bahasa is spoken all over Indonesia by the educated populace. In more remote areas various dialects are used. Most of the major hotels catering to the international clientele have English-speaking staff, as do the shopping centres frequented by expatriates. However, the English can be sketchy. International telephone operators speak English; taxi drivers do not. Indonesian firms hoping to conduct business with foreigners all try to have English speakers.

Communications: Telephone service is adequate, although phone lines do go out occasionally.

Canada Direct international dial line allows callers to reach Canada without going through a local operator. There is a 10 percent VAT tax on all phone calls.

DHL and Federal Express operate in the major cities; incoming parcels may be held up at customs causing some delays. Many international firms have their own regular pouch service set up using normal air freight services. Airlines flying into Jakarta include Garuda (the national airline), Singapore Air, Cathay Pacific, and KLM; connections can be made to all major airlines flying through Singapore.

Housing: Housing is expensive. Depending on the size of house, one can expect to pay from \$3,000-\$7,500 per month for a house or luxury apartment in Jakarta. The cost of air conditioning and electrical appliances can reach \$300-\$1,000. Housing leases are normally paid at least two years in advance in Jakarta, and requirements for 3-4 years rent in advance are not uncommon. Prices are quoted in U.S. dollars.

Many new condominiums are being built so the market may stabilize; recently rents had been rising at a 9 to 15-percent increase per year. Rental agents are frequently used. Western-style houses with swimming pools are easy to find. Location becomes important as the traffic becomes increasingly heavy—all commutes are long, from 30-90 minutes, doubled if there is a heavy rain.

Health: Due to air pollution, residents often experience respiratory illnesses at some time during any extended stay in the larger cities. The water is not potable—bottled water from certain firms is recommended. Care must be taken when eating out to avoid contracting bacterial infections. There are clinics and hospitals in Jakarta, but expatriates generally prefer to fly to Singapore for treatment in serious cases.

Food: Exercise reasonable care in the preparation of food at home and in selecting from the menu when eating out. There are many moderately priced and upscale restaurants which offer a wonderful variety of ethnic cuisines in addition to the Indonesian dishes—Chinese, Indian, Italian, Thai, Korean, French, and American.

There are top-notch bakeries and a couple of grocery store chains which offer a wide variety of products, many imported from the U.S. and

Australia, for a price about double what you would pay at home.

Distribution and Sales Channels

Generally, import, export, wholesale, and retail distribution have been reserved for Indonesian companies (defined as at least 51 percent Indonesian owned). The one exception, foreign investors importing raw materials for use in manufacturing, may not distribute their product in the domestic market.

Foreign companies may open and maintain a local representative office with the permission of the Indonesian Department of Trade.

The representative may be an Indonesian company, an Indonesian individual, or a foreign national, but only one trade representative office is permitted. Trade representatives are not permitted to engage in direct sales but may engage in sales promotion and marketing or provide market research and technical advice.

Finding a Partner

The services of an aggressive, active agent are an important means of expanding sales in Indonesia. Many foreign firms and trading companies have opened up trade representative offices in Indonesia. Some of these have expatriates on their staffs. In many instances, representative offices of foreign companies have established close connections with Indonesian national importers, allowing the two companies to operate virtually as one. The Indonesian company acts as an import distributor for overseas principals and the foreign company promotes products and, if necessary, provides technical assistance.

Until the 1970s, the government did not require the appointment of an agent except when importing fertilizer and specific types of heavy equipment. Since December 1970, the import of certain types of heavy equipment, including road rollers, hoisting and lifting apparatus, and tractors and cement-mixing machines must be handled by a national franchise holder or sole agent.

The government also began putting pressure on agents to deal directly with foreign manufacturers rather than third-country middlemen. For these

reasons, a foreign firm selling to government agencies would do well to appoint an Indonesian firm as its agent.

Traditionally, Indonesian importers have not specialized in particular product lines. It is generally advisable to set up agency arrangements with firms that handle a complementary range of products. These are not essential, however, since substantial sales can often be made by firms active in quite different product lines. An increasing number of firms identifying themselves as suppliers of "technical goods" concentrate on general industrial machinery and equipment. These firms often have engineers on their staff and are prepared to provide engineering assistance and after-sales technical support.

The main difference between a representative office and an agent is that an agent can perform all trade activities and is allowed to have several offices throughout Indonesia. After an agent has been appointed and a trade representative office is established with a foreign employee, the expatriate can be assigned to and become employed by the agent. This procedure effectively permits the foreign firm to meet the legal requirements of the Indonesian law and still allows the foreign firm to have a more direct hand in selling its products.

In many cases, a separate agreement is signed between the expatriate personnel and the foreign employer to regulate this relationship. The tax liability of the foreign firm is limited to the income tax of the expatriates assigned to the representative office, while any other taxes are assessed to and borne by the agent.

Cooperation under a management agreement allows the foreign company in Indonesia to play a more active role. The types of management agreements are: technical assistance agreements; management agreements; and, management agreements coupled with financial agreements.

The technical assistance agreement limits the foreign firm's function to providing technical assistance to the Indonesian company. The management agreement allows the foreign firm to manage the company or a division within the company. In the management agreement coupled with a financial agreement, the foreign firm also finances the Indonesian operation, either

under the name of the Indonesian company or a division thereof.

Remuneration to the foreign company can be in one of the following forms: fixed fee; commission; or profit-sharing.

Whatever basis is used for remuneration, it must be formulated clearly in the agreement, and it must be applicable under the present Indonesian laws.

To protect the foreign company's interests properly, a bona fide and comprehensive agreement should be drawn between the parties concerned. Indonesian law does not permit a foreign firm to market its products directly to its customers, with the exception of specific products sold directly to government agencies. In those cases, direct approval must be obtained by the purchasing entity. All other products are marketed through Indonesian firms, as agents or distributors. Foreign firms can be involved primarily through the assignment of foreign technical representatives to the local firm.

Joint Ventures and Licensing

The government has lifted most requirements for domestic equity and joint ventures in recent years. Those that opt for 100 percent initial ownership are obligated to divest some share, as little as 1 percent, after 15 years. This can be accomplished through the stock market.

The choice of an Indonesian joint venture partner is critical for many reasons. For example, the partner can be relied upon for knowledge of the local scene and contacts, which are important for successful operations in Indonesia. Also, a partnership in Indonesia is difficult to dissolve.

Consequently, the first choice has to be the correct choice. It is generally wise to keep in mind that business sense is crucial to any commercial endeavour and, while contacts are important, they are a poor substitute for business skills.

Because Indonesians place great importance on personal relationships and mutual understanding, partnerships tend to be based primarily on genuine accord, with the written contract playing a less significant role. It is therefore important that any agreement is well understood by both sides. A

contract over which there are conflicting interpretations is certain to cause future problems.

In some cases, licensing arrangements for products or services are more cost-effective for Canadian companies doing business in Indonesia, but the same caution mentioned for joint venture partners must also be used.

Establishing an Office

A business permit issued by the appropriate government agency is required to establish an office in Indonesia. Several government agencies may be involved in issuing a business permit, depending on the nature of the business.

Foreign companies may open a representative office by submitting a business permit to the Indonesian Department of Trade. After reviewing the application to see if it meets all the requirements, the Department will issue a letter of approval and make recommendations to the Immigration Office of the Department of Justice to obtain a "stay permit" and to the Indonesian Department of Manpower for the "work permit".

This letter of approval is valid for three months and can be used by the applicant to obtain other permits, including the payment-of-guarantee money (Rp 500,000 per individual) and the annual administrative fee of Rp 50,000. After all the requirements are fulfilled, the Department will issue a two-year business permit for the representative office.

Selling Factors and Techniques

As in most markets, the criteria of price, quality and delivery are most significant to the Indonesian customer. Low-interest financing also plays an important role and can potentially offset the advantages of the initial factors; but, Indonesian buyers are beginning to realize that a cheap price may in fact prove more costly in the long run.

Another significant factor is the demonstration that the supplier intends to be around for the long term. Companies that have made a commitment to the country by establishing an office, or some other significant presence, will be more successful in marketing their products than those that attempt to sell their product on annual whirlwind trips.

A willingness to establish a joint venture production operation will also contribute to sales

success, especially if the new facility has the potential to become a source for export sales in the rest of Asia, in addition to domestic sales.

Advertising and Promotion

Newspaper advertising is recommended for introducing new products, particularly in Jakarta and West Java where purchasing power is concentrated. Numerous newspapers reach a large proportion of consumers and the business community.

Advertising is currently limited, by government decree, to 35 percent of a newspaper's content. A maximum length of 20 pages is also imposed by the government. These restrictions, although somewhat eased by the recent decision to increase the number of times per week that newspapers are allowed to publish, have resulted in very high advertising rates in the leading newspapers.

The most concentrated single media force is television. Television ownership has become commonplace in Indonesia; potential viewership is 110 million people. The number of national television stations has grown to 6 in recent years, including TVRI (state-owned and operated), TPI, RCTI, SCTV, Indosiar and An-TEVE.

Another excellent advertising medium is the "Standard Trade and Industry Directory of Indonesia", an official publication of the Indonesian Chamber of Commerce and Industry (KADIN). Requests may be made to the publisher at J. Hayam Wuruk 4SX, P.O. Box 4556, Jakarta Pusat.

Pricing Products

Given the competition that Canadian suppliers face from products supplied by firms from other countries, product pricing must take into account the costs of delivery, distribution and advertising.

Pricing is best developed with advice from local distributors, who are more aware of the competitive factors at play in the specific market.

Sales Service and Customer Support

A critical aspect of a product's successful penetration into any market is customer support. Canadian

firms face difficulties in providing this support, given the distances and costs of maintaining product support facilities in a foreign country.

Although the local distribution partner normally establishes such support, firms should be prepared to invest substantial amounts of capital and manpower into making their local partner a first-class service provider. Regardless of the reputation a company may have on the international market, Indonesian customers look to a firm that has on-the-ground customer support. They need to know that they can access their supplier in the country, rather than over long distances.

This may also be one reason for preferring principal manufacturers, rather than products from foreign trading companies.

Selling to the Government

Although plans are underway to at least partially privatize state industries, the Government of Indonesia is still a major customer of a variety of products and services.

While many of the items sold to the Government can be negotiated directly, there is still reason to utilize the services of an agent or distributor, for the early stages of project development, and for delivery, installation and service needs later.

Canadian firms will want to become familiar with the "Blue Book", the listing of major projects identified by the Government of Indonesia as necessary for their development. The list is published annually by the National Planning Agency (BAPPENAS) and is the official list of projects that can be considered for allocation of export credit financing, among other things.

Companies should note that virtually all of the projects listed in this book request "soft loan" (low interest rate) financing.

A project listed in the "Blue Book", however, is one which is already a long way towards selection. This is because the Indonesian agencies which develop these projects often do so with the assistance of local agents and foreign suppliers of the specific product or service. Consequently, a listing in the "Blue Book" may mean that a specific firm is already a part of the process.

Protecting Your Intellectual Property

Protection of intellectual property rights (IPR) in Indonesia is hampered by inadequate enforcement of the laws and regulations passed since 1987. Foreign companies therefore must be vigilant in protecting their products from IPR infringement. Many choose to go through the Indonesian legal system but cases may take several years before they are finally resolved.

Need for Local Legal Assistance

Since the legal system in Indonesia is still undergoing modernization, most firms should locate and retain a local lawyer early in the process. In any commercial dispute, the court system is generally the last step. The success rate by foreign firms in the local court system has not been high.

Although foreign firms cannot yet practice law in Indonesia, a few international law firms have established consulting arrangements with local firms and are available to assist exporters in working their way through the local legal structure.

Regulatory Issues

In 1986, the Indonesian government began a program of trade policy reform. A number of periodic deregulation packages have eliminated or reduced tariff and non-tariff barriers, thus increasing competition in the economy.

The deregulation package issued in May 1995, was the most significant since 1990. It reduced the average tariff by nearly 25 percent, and introduced a long-range approach to reform, laying out periodic tariff reductions through the year 2003. However, the most recent package made little progress in reducing non-tariff barriers.

One area in which government policy hinders trade is the ban on majority foreign involvement in distribution and services to domestic trade. Barriers to trade are also compounded by the oligopolistic nature of much of the domestic economy.

Import Duties and Surcharges: The May 1995 reform package reduced the import duties on most tariff categories by 5 to 10 percentage points. According to the schedule for future tariff reform, tariffs below 20 percent will be reduced by

5 percent by the year 2000 and tariffs above 20 percent will be reduced to 20 percent by 1998 and to 10 percent by 2003.

Indonesia also imposes import surcharges, or supplemental import duties, on approximately 200 tariff lines. These charges were often introduced as attempts to make tariffs out of previous non-tariff barriers, and they range from 5 to 30 percent, with imports in the automotive sector being subjected to surcharges of 75 percent.

Progress in the deregulation process is clear: the simple average unweighted tariff plus tariff surcharge has fallen from 37 percent in 1985 to 15 percent in 1995. The trade-weighted average fell from 12.5 percent in 1994 to 9.5 percent in 1995.

The effective tariff rate is much lower, however, due to exemptions. Capital goods for approved investments, imports used to produce exported goods, and imports exempted by the Ministry of Finance are not subject to the duties. Smuggling also considerably reduces the amount of revenue collected through tariffs.

The May 1995 deregulation package lowered applied tariff rates far beyond Indonesia's commitments in the Uruguay Round of GATT negotiations. In the Round, Indonesia bound 94.6 percent of its tariff lines at a 40 percent import tariff, and committed to eliminate all import surcharges in the bound sectors. The offer did not include any tariff lines with current applied tariffs plus import surcharges higher than the ceiling, however, so the offer to bind was not particularly valuable in creating new trade. Sectors which are not covered by the offer include motor vehicles and parts, iron and steel, machinery, aircraft, and chemicals.

Other taxes: The government levies a 10 percent value-added tax on the sale of all domestic and imported goods, and a luxury tax of 10 to 35 percent on a number of products. For imports, these sales taxes are collected at the point of import and are calculated based on the value of the product, including import duties.

Non-Tariff Barriers continue to protect a large share of both agricultural and manufacturing production. The May 1995 package lifted licensing requirements for some metal, steel, and iron products, but the package's overall effect on non-tariff barriers was slight. Products in 189 tariff

categories are subject to import licensing restrictions, covering US\$2 billion, or 6.3 percent of total imports in 1994. Major affected products are motor vehicles, rice, wheat, sugar, salt, soybean meal, alcoholic beverages, cloves, explosives, and petroleum products.

Under its commitment in the Uruguay Round, the Indonesian Government is committed to removing the non-tariff barriers on 179 of the 269 restricted tariff lines by the year 2005; 81 of those items are agricultural products. The remaining 98 non-tariff barriers that will not be removed under the GATT include those on motor vehicles, engines and heavy equipment, and iron and steel and related products.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).

These issues should be taken into consideration when assessing financial risk in Indonesia:

- A number of underlying tensions increasingly cloud the political future in Indonesia. Foremost among these are succession uncertainties related to the President. While neither violence nor rebellion are new to Indonesia, incidents of social and political unrest have risen dramatically in 1996. While political inertia and a well-organized security apparatus should suffice to keep a lid on such protests over the short term, the government's ability to suppress them indefinitely cannot be assumed.
- The granting of special privileges to members of the President's extended family continues to render the business environment somewhat unpredictable.
- Economic policy aims to encourage liberalization and deregulation, but future growth needs large investment. The very strong performance of 1995 brought new policy challenges in 1996 related to overheating of the economy and significant capital inflows. Consequently, excess demand pressures reemerged.
- GDP grew by 3 percent in 1995, reflecting a sustained boom in domestic demand (consumption, real estate and investment) rather than exports. In 1996, economic growth was expected to remain solid at about 7.8 percent. This is a mixed blessing in view of the inflationary pressures and the size of the deficits on the external accounts. The objectives under Repelita VI (the Indonesian government's current development plan for the 1994-99 period) include a growth rate averaging 7 to 7.5 percent a year. But, the International Monetary Fund (IMF) suggests a GDP growth rate closer to 7 percent over the next 2 years to help dampen excess demand pressures before returning to a sustainable higher growth path.
- The Indonesian government's fiscal policies are relatively well-managed. The 1996 budget proposed to generate a surplus of 2 percent of GDP (including oil revenues). It has been conservatively based on an average oil price of US\$16.80 a barrel. Inflation, which was almost double digits in 1995, is expected to be in the area of 9 percent in 1996. A drought pushed up food prices and an appreciating yen boosted imports prices.
- Indonesia has a track record of trade surpluses since it has launched its trade liberalization program in 1988. Despite the good performance of oil and non-oil exports, the trade surplus was smaller in 1995. This reflected large imports, boosted by strong domestic demand. In 1996 the trade surplus is projected at US\$7 billion. Large invisible payments led to a much larger external current account deficit, which is projected to be about US\$9 billion in 1996. Based on current policies, it is projected to reach US\$10.5 billion in 1997. Consequently, Indonesia will have to attract sustained capital inflows and aid.
- Because the external debt is projected to climb to US\$125 billion in 1997, ceilings for public sector external borrowing have been reduced and prepayment of expensive external debt is

under way. Controls on commercial borrowing will need to be maintained to keep the debt service ratio manageable.

- The risks of doing business in Indonesia will arise from the weakness of the banking system (burdened by non-performing loans and fraud) and the growing influence of small groups of politically well-connected conglomerates.

Collection Experience

The overall collection experience in Indonesia is good. Secure trading terms are the norm. There are no credit or financial issues.

CONTACTS

Canada Mortgage and Housing Corporation

Housing Export Centre

700 Montreal Road
Ottawa, Ontario K1A 0P7

Tel.: 1-800-465-6212 or
(613) 748-2000
Fax: (613) 748-2302

Canadian Government Departments and Services

Department of Foreign Affairs and
International Trade (DFAIT)

InfoCentre
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2

Tel.: 1-800-267-8376 or
(613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board:
Tel.: 1-800-628-1581 or
(613) 944-1581

Canadian Embassy in Indonesia

Asia and Pacific Trade Division
South East Asia Division (PSE)
125 Sussex Drive
Ottawa, ON K1A 0G2

Tel.: (613) 992-0959
Fax: (613) 944-1604

5th Floor, Wisma Metropolitan 1
Jalan Jendral Sudirman Kav 29
Jakarta 12920
Republic of Indonesia

Tel.: (011-62-21) 525-0709
Fax: (011-62-21)
571-2251/570-1494

International Trade Centres

Newfoundland

International Trade Centre
P.O. Box 8950
Atlantic Place
215 Water Street
Suite 504
St. John's, NF A1B 3R9

Tel.: (709) 772-5511
Fax: (709) 772-5093

Prince Edward Island

International Trade Centre
P.O. Box 1115
Confederation Court Mall
134 Kent Street
Suite 400
Charlottetown, PE C1A 7M8

Tel.: (902) 566-7443
Fax: (902) 566-7450

Nova Scotia

International Trade Centre
P.O. Box 940, Station M
1801 Hollis Street
Halifax, NS B3J 2V9

Tel.: (902) 426-7540
Fax: (902) 426-5218

New Brunswick

International Trade Centre
1045 Main Street
Unit 103
Moncton, NB E1C 1H1

Tel.: (506) 851-6452
Fax: (506) 851-6429

Quebec

International Trade Centre
5 Place Ville-Marie
Seventh Floor
Montreal, PQ H3B 2G2

Tel.: (514) 283-6328
Fax: (514) 283-8794

Ontario

International Trade Centre
Dominion Public Building
1 Front St. West
Fourth Floor
Toronto, ON M5J 1A4

Tel.: (416) 973-5053
Fax: (416) 973-8161

Manitoba

International Trade Centre
P.O. Box 981
330 Portage Avenue
8th Floor
Winnipeg, MB R3G 2V2

Tel.: (204) 983-5851
Fax: (204) 983-3182

International Trade Centres (cont'd)

Saskatchewan	International Trade Centre The S.J. Cohen Building 119-4 th Avenue South Suite 401 Saskatoon, SK S7K 5X2	Tel.: (306) 975-5315 Fax: (306) 975-5334
Alberta <i>* Edmonton office is also responsible for Northwest Territories</i>	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3 510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 495-2944 Fax: (403) 495-4507 Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia <i>*Vancouver office is also responsible for the Yukon</i>	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

Export Development Corporation (EDC)

Ottawa	151 O'Connor Street Ottawa, ON K1A 1K3	Tel.: (613) 598-2500 Fax: (613) 237-2690
Vancouver	One Bentall Centre 505 Burrard Street Suite 1030 Vancouver, BC V7X 1M5	Tel.: (604) 666-6234 Fax: (604) 666-7550
Calgary	510-5th Street S.W. Suite 1030 Calgary, AB T2P 3S2	Tel.: (403) 292-6898 Fax: (403) 292-6902
Winnipeg <i>*office also serves Saskatchewan</i>	330 Portage Avenue Eighth Floor Winnipeg, MB R3C 0C4	Tel.: (204) 983-5114 Fax: (204) 983-2187
Toronto	National Bank Building 150 York Street Suite 810 P.O. Box 810 Toronto, ON M5H 3S5	Tel.: (416) 973-6211 Fax: (416) 862-1267
London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

Indonesia Government Offices in Canada

Embassy of Indonesia	287 MacLaren Street Ottawa, ON K2P 0L9	Tel.: (613) 236-7403 Fax: (613) 563-2858
Consulate General	1455 West Georgia St. 2nd Floor Vancouver, BC V6G 2T3	Tel.: (604) 632-8855 Fax: (604) 662-8396
Consulate General	159 Osland Drive Edmonton, AB T6R 2A1	Tel.: (403) 430-8742 Fax: (403) 988-9768

Indonesia Government Offices in Canada (cont'd)

Consulate General	425 University Avenue 9th Floor Toronto, ON M5G 1T6	Tel.: (416) 591-6461 Fax: (416) 591-6613
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Multilateral Organizations

World Bank	Washington, DC 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, DC 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726

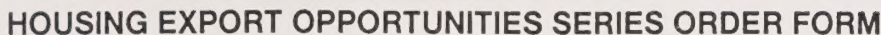
Business and Professional Organizations in Canada

ASEAN-Canada Business Council (ACBC)	c/o Canadian Chamber of Commerce 55 Metcalfe Street Ottawa, ON K1P 6N4	Tel.: (613) 238-4000 Fax: (613) 238-7643
Asia Pacific Foundation	666-999 Canada Place Vancouver, BC V6C 3E1	Tel.: (604) 684-5986 Fax: (604) 681-1370
Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, ON K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218

Business and Professional Organizations in Indonesia

Under the CIDA INC Program, a Canada-Indonesia Business Development Office (CIBDO) has been established in Jakarta. This office is administered by the Alliance of Canadian Manufacturers and Exporters. Canadian advisors, resident in Jakarta and placed with two key Indonesian agencies—the BKPM and BPPT, are available to provide information and assistance to Canadian businesses on opportunities in Indonesia.

Canadian-Indonesia Business Development Office	World Trade Centre, 17th Floor Wisma Metropolitan II, 16th Floor Jl. Jend. Sudirman Kav. 31 Jakarta 12920 Republic of Indonesia	Tel.: (011-62-21) 251-0644 Fax: (011-62-21) 571-5673
Canadian Investment Advisor Investment Coordination Board (BKPM)	Jalan Gatot Subroto No. 44 Jakarta Selatan Republic of Indonesia	Fax: (011-62-21) 520-2048
Canadian Resident Advisor Agency for the Assessment and Application of Technology (BPPT)	Jl. M.H. Thamrin 8, Jakarta Republic of Indonesia	Tel./Fax: (011-62-21) 316-9698
Indonesia-Canada Business Council	Jakarta	Tel.: (011-62-21) 310-6407 Fax: (011-62-21) 390-8863
Canadian Business Association	Jakarta	Tel.: (011-62-21) 250-0309/520-7161/ 250-0023 Fax: (011-62-21) 250-0309/525-7590
The Indonesian Chamber of Commerce and Industry (KADIN)	Jl. M.H. Thamrin 20, Jakarta Republic of Indonesia	Tel.: (011-62-21) 324-000 Fax: (011-62-21) 315-0241



CMHC
P.O. Box 35005
Stn BRM B
Toronto, ON
M7Y 6E5

To avoid double billing,
please do not send
confirmation. A fax will
be treated as an original order.

Check only one (individuals must prepay all orders.)

Name		
Company or Organization	Position Title	
Address		
City	Province/State/Country	Postal/Zip Code
Telephone Number ()	Fax Number ()	

<input type="checkbox"/>	Please charge my	
	VISA <input type="checkbox"/>	American Express <input type="checkbox"/> MasterCard <input type="checkbox"/>
	Card Number	
	Expiry Date	
<input type="checkbox"/>	Signature	
	Payment enclosed \$ _____	
	Please make cheque or money order payable to CMHC	

To Complete See Example on Reverse Side

[illegible]

<p>SOURCE (How did you hear about the product?)</p> <p>TV AD <input type="checkbox"/> <input type="checkbox"/> CATALOGUE</p> <p>NEWSPAPER <input type="checkbox"/> <input type="checkbox"/> FLYER/BROCHURE</p> <p>MAGAZINE <input type="checkbox"/> <input type="checkbox"/> OTHER</p>	Subtotal Column 3		A	<p>Subtotal Column 5</p> <p>Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.</p> <p>SEE EXAMPLE ON REVERSE</p>
	<p>SHIPPING CHOICE</p> <p>Regular Mail <input type="checkbox"/> Courier <input type="checkbox"/></p>	<p>ADD Shipping & Handling</p>	B	
	<p>Subtotal (Add A + B)</p>		C	
<p>U.S. AND INTERNATIONAL ORDERS Please pay subtotal C in U.S. Funds (do not add GST or PST)</p>	<p>Registration #100756428</p>	<p>ADD GST (7% of subtotal C)</p>	D	
	<p>Subtotal (Add C + D)</p>		E	
	<p>Quebec residents add PST (6.5% of Subtotal E)</p>		F	
	<p>Total (Add E + F)</p>		G	

Shipping and Handling Charges

Points	Canada Regular Rates	Canada Courier Rates	U.S. Regular Air Rates	U.S. Courier Rates	International Regular Air Rates	International Courier Rates	Europe Courier Rates
1	2.55	5.00	5.00	11.00	7.00	24.00	19.00
2	3.65	8.00	6.50	14.00	9.00	30.00	25.00
3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
181 to 200	10.98	35.60	69.38	176.75	250.29	658.75	269.75
201 to 220	11.48	40.45	75.05	190.75	N/A	718.75	289.75
221 to 240	11.99	43.30	80.72	204.75	N/A	778.75	309.75
241 to 260	12.49	46.15	86.49	218.75	N/A	838.75	329.75
261 to 280	13.00	49.00	92.21	232.75	N/A	901.75	349.75
281 to 300	13.50	51.85	97.88	246.75	N/A	958.75	369.75
Estimated Delivery times	2-3 weeks	5-10 days	2-3 weeks	5-10 days	4-8 weeks	12 days	12 days

Prices Subject to Change

CMHC Return Policy

We will replace damaged materials and correct shipping errors if we are notified within thirty days after you receive your shipment. If an item is not defective or not mistakenly shipped, then it must be returned by you at your cost within thirty days of receipt. It must arrive here in resaleable condition for you to receive credit.

International Note: Most international return shipments arrive damaged. If you received damaged items, contact CMHC at (613) 748-2969. Please do NOT return the damaged items unless we ask.

Example: To complete order form and determine shipping and handling charges

ORDER NUMBER	REPORT TITLE <small>Please be sure the order number and report title match the listing</small>	1 QTY	2 ITEM AMOUNT \$	3 TOTAL AMOUNT <small>1 x 2</small>	4 SHIPPING POINTS	5 TOTAL SHIPPING POINTS <small>1 x 4</small>
NHA 8003	Brazil	1	35.-	35.-	3	3
NHA 8009	Western Europe	2	23.-	46.-	3	6
					3	
					3	

SOURCE <small>(How did you hear about the product?)</small> TV AD <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> OTHER	Subtotal Column 3		A 81.-	Subtotal Column 5	9
	SHIPPING CHOICE Regular Mail <input checked="" type="checkbox"/> Courier <input type="checkbox"/>		B 6.18		
	Subtotal (Add A + B)		C 87.18	Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.	
	Registration #100756428 ADD GST (7% of subtotal C)		D 6.10		
	Subtotal (Add C + D)		E 93.28		
	Quebec residents add PST (6.5% of Subtotal E)		F -		
Total (Add E + F)		G 93.28			

U.S. AND INTERNATIONAL ORDERS
 Please pay subtotal C in U.S. Funds
 (do not add GST or PST)

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